

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 12, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Sickel)
Office of the General Counsel (Keating)

RE: Docket No. 060573-EQ – Petition of Tampa Electric Company for approval of 2006 small power production agreement with City of Tampa.

AGENDA: 10/24/06 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060573.RCM.DOC

Case Background

Tampa Electric Company ("TECO") currently purchases 15.5 megawatts (MW) of capacity and associated energy from the City of Tampa (the "City") based on generation from the McKay Bay Refuse to Energy Facility (the "Facility"). The precise terms and conditions for this purchase are contained in agreements approved by the Commission for cost recovery in 1983 and 1989.¹ During an outage required for environmental improvements, changes were made that enhanced performance and efficiency aspects of the Facility. The Facility returned to service in

¹ See Order No. 12445 in Docket No. 830188-EU, In re: Petition of Tampa Electric Company for approval of energy and capacity payments to the City of Tampa, Florida and Order No. 21862-A in Docket No. 890736-EQ, In re: Petition of Tampa Electric Company for approval of amendment to small power agreement with City of Tampa .

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2002 and has demonstrated a capacity increase of 3.5 MW since that time. On August 25, 2006, TECO filed a petition requesting approval of a 2006 Small Power Purchase Agreement pursuant to which it would purchase this additional 3.5 MW of firm capacity and energy. This recommendation will address TECO's petition. The Commission has jurisdiction over this subject matter pursuant to Sections 366.04 through 366.06, 366.91 and 366.80 through 366.85, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission grant the petition of Tampa Electric Company for approval of the agreement between TECO and the City of Tampa for purchase of an incremental 3.5 MW of capacity and energy from the McKay Bay Refuse to Energy Facility?

Recommendation: Yes. The agreement incorporates payment at full avoided cost for energy derived from a renewable source in accord with Section 366.91, Florida Statutes (F.S.), and meets the requirements of Rule 25-17.001(5)(d), Florida Administrative Code. (Sickel)

Staff Analysis: On August 25, 2006, TECO filed a petition requesting approval of a 2006 Small Power Production Agreement pertaining to the generator known as the McKay Bay Refuse to Energy Facility, owned by the City of Tampa. TECO has purchased 15.5 MW of capacity and associated energy from the City under a contract approved in 1983 and a subsequent amendment approved in 1989, as previously cited. TECO collectively refers to these earlier agreements as the "First Agreement."

The agreement approved in the 1983 docket was based on an estimated rating of 25 MW for the Facility. In addition, a threshold capacity factor of 70%, on a monthly and annual basis, was set for capacity payments. When the Facility came into service after a construction period of approximately two years, the parties agreed that capacity payments would be based on a rating of 15.5 MW. The 1989 amendment modified the term of the agreement to end on March 1, 2009. The 1989 amendment also provided that any increase in rating would be based on a physical modification or addition to the Facility, followed by a demonstrated increase in the generating capacity. Any additional capacity purchased would be subject to a new agreement, but the first 15.5 MW would be attributed to purchases under the First Agreement.

TECO's petition relates to a new agreement for purchase of 3.5 MW of additional firm capacity and energy. This incremental capacity results from replacement of items such as boilers and furnace/grate systems, which enhanced the performance and efficiency aspects of the Facility. The work was done in conjunction with an environmental retrofit project undertaken to meet Clean Air Act requirements. All work was completed by year-end 2001. Because of the long outage, the contract end date for the First Agreement was shifted to August 1, 2011.

In accordance with the provisions of the First Agreement, the City demonstrated the uprated capacity during the years 2002 through 2004, and in 2005 expressed a desire to sell additional firm capacity to TECO. Although the Tampa Electric Standard Offer had an open season in 2005, the parties elected to negotiate an agreement that integrates the new capacity with the terms of the existing contract. The new and the existing contracts will terminate simultaneously, at August 1, 2011.

Under the terms of the agreement in this docket, the capacity and energy provided to TECO must be separated into the portion that belongs with the First Agreement and the portion that belongs with the new agreement. TECO has developed a system of spreadsheets that accomplish the required separation, utilizing hourly generation, availability, and comparisons of avoided cost. For the generation of year 2005, TECO has prepared a month by month comparison of payments made under the First Agreement with the payments that would have

been made if the 2006 Agreement had been in force. During the negotiations and prior to the signing of the agreement, copies of the comparative invoices and supporting calculations were provided for the City to evaluate. Staff has reviewed samples of the same work, and the assumptions and calculations appear reasonable. Under the terms of the 2006 contract, a minimum monthly capacity factor of 80% and availability factor of 90% are required for payment for the incremental capacity. Security payments are not required, since the capacity and energy are provided from an existing facility, and early capacity payments are not a part of the agreement.

When the negotiations leading to this agreement began in 2005, the avoided unit for TECO was a 180 MW CT planned to be in-service by January 2007. By the time agreement was reached, plans had changed and the next avoided unit became a 97 MW CT planned for January, 2009. The agreement was not renegotiated to match the planning change, and as a result the payments in the agreement are based on the January 2007 avoided unit.

As a sensitivity test, staff requested a comparison between payments in the agreement versus the payments that would result if the 2009 unit were to be used as the avoided unit. The two scenarios produce very similar results, but the contract is less costly overall. The projection of total payments under the contract is \$21,282 less than projected payments based on the 2009 unit. Therefore, approval of the agreement filed in this docket will contribute to the advancement of renewable energy at a favorable cost compared with the current next avoided unit.

There has been a perception that small renewable capacity purchases could in fact result in a duplication of capacity, because such purchases would not actually avoid or defer any large installations. Traditionally, the Commission has recognized that by making such purchases a utility will theoretically be paying twice for the same firm capacity and thus create a subsidy for the renewable capacity supplier. That situation is mitigated somewhat by the opportunity to sell any excess capacity in the wholesale market with the gains being credited to ratepayers. In addition, TECO projects a growing demand for generating capacity and energy. This renewable source has relatively low cost and does not appear to bring about duplication of capacity.

The agreement is designed to encourage as much generation as possible by the Facility. The Florida Legislature has found that it is in the public interest to promote the development of renewable energy resources, as detailed in Sections 366.91, F.S. By converting municipal solid waste to useful electric energy, this renewable generation contributes to fuel diversity and conservation of expensive resources such as petroleum fuels, in line with the provisions and intent of the Florida Energy Efficiency and Conservation Act (FEECA), Sections 366.80 through 366.85, and 366.91, F.S., and Rule 25-17.001(5)(d), Florida Administrative Code.

In summary, this agreement meets all requirements and rules that govern the provision and purchase of capacity and energy from renewable resources. In particular, it encourages the use of renewable energy sources and the conservation of expensive limited resources. It meets the goals of FEECA as well as Florida renewable energy policy in Section 366.91, F.S. For these reasons, staff recommends approval of the petition filed by TECO in this docket.

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Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

Staff Analysis: At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.